

Tax Incentives for Recycling Equipment Used by Manufacturers

Income Tax Credits

Credits are allowed against the state corporation income tax or the state individual income tax for 50% of the installed costs of machinery and equipment purchased by the taxpayer and used to recycle industrial wastes and postconsumer wastes (except for demolition wastes). Qualifying machinery and equipment must be used exclusively to process waste materials or manufacture finished products composed substantially of recycled waste materials.

The amount of the credit that can be taken for the tax year in which the equipment is bought is limited to 10% of the total allowable credits and shall not exceed 25% of the taxpayer's income tax liability. (KRS 141.390(2)(a))

Credits can be carried forward until used, however, equipment sold or transferred are subject to a prorated credit as follows: 1) Equipment with a useful life of 5 or more years – a) less than 1 year, no credit; b) Greater than 1, but less than 2 years, 20% of the total credit; c) Greater than 2, but less than 3 years, 40 % of the total credit; d) Greater than 3, but less than 4 years, 60% of the total credit and; e) Greater than 4, but less than 5 years, 80% of the total credit. 2) Equipment with a useful life of less than 5 years – a) Less than 1 year, no credit; b) Greater than 1, but less than 2 years, 33% of the total credit and c) Greater than 2, but less than 3 years, 67 % of the total credit. (KRS 141.390(5))

Whenever a credit is claimed, it can be taken only after any allowable credits are taken for economic development incentive programs (KIDA, KREDA, KJDA, KIRA), health insurance tax credit, credit for taxes paid to other states and for hiring unemployed workers. (KRS 141.390, 139.095, 141.0205)

Sales Tax Exemption

Machinery and equipment purchased or leased by a business, industry or organization in order to collect, source separate, compress, bale, shred, or otherwise handle waste materials if the equipment is primarily used for recycling purposes is exempt from the state sales and use tax. (KRS 139.480(23))

Low Property Tax Rate

Machinery and equipment owned and used primarily to collect, separate, compress, bale, shred or handle waste materials for recycling is exempt from all local property taxes (county, city, schools, special districts). The state rate of \$0.45 per \$100 of assessed value applies. (KRS 132.020(1)(i), 132.200(15)) Equipment used to recycle product directly back into the manufacturing process may qualify for the manufacturing machinery state rate only of \$0.15 per \$100 of assessed value.

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Major Recycling Project Tax Credits

A major recycling project is one where the taxpayer (KRS 141.390(1) (g)):

- 1) Invests more than \$10,000,000 in recycling or composting equipment;
- 2) Has 750 or more full-time employees and pays more than 300% of the federal minimum wage; and
- 3) Has plant and equipment with a total cost of over \$500,000,000.

A taxpayer with a major recycling project is entitled to an income tax credit for up to 10 years and up to 50% of the installed costs of the equipment. (KRS 141.390(2) (b))

In each taxable year, the amount of credits claimed for all major recycling projects is limited to (KRS 141.390(2) (b)):

- 1) 50% of the excess of the total of each tax liability over the baseline tax liability of the taxpayer; or
- 2) \$2,500,000, whichever is less.

A taxpayer with one or more projects will be entitled to a tax credit equal to the total for each major recycling project, but he may not take the standard recycling credit and the major project credit on the same equipment. (KRS 141.390(2) (c) (d))

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